



Manulife Financial Corporation (MFC)

Updated August 23rd, 2018 by Nick McCullum

Key Metrics

Current Price: \$18	5 Year CAGR Estimate: 11.2%	Volatility Percentile: 63.8%
Fair Value Price: \$22	5 Year Growth Estimate: 4.0%	Momentum Percentile: 22.3%
% Fair Value: 82%	5 Year Valuation Multiple Estimate: 3.5%	Valuation Percentile: 87.6%
Dividend Yield: 3.7%	5 Year Price Target: \$26	Total Return Percentile: 76.2%

Overview & Current Events

Manulife Financial Corporation is a multinational insurance and financial services company headquartered in Toronto, Ontario, Canada. The company operates as Manulife in Canada and Asia while its United States business is primarily operated through the John Hancock Financial subsidiary. Manulife reports financial results in Canadian dollars. With that said, the company is cross-listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the ticker 'MFC' with a market capitalization of US\$37 billion. Although the company's reporting currency is Canadian dollars, this research report will refer to the NYSE-listed shares and report all of the company's financial results in U.S. dollars.

In early August, Manulife Financial Corporation reported (8/8/18) financial results for the second quarter of fiscal 2018. In the quarter, adjusted net income increased by 21.9% while adjusted earnings-per-share increased by 22.8%, which represents a minor tailwind from Manulife's share repurchase program. The company reported a return on equity of 13.7%, which compares very favorably with the 11.3% return on equity for the same period in fiscal 2017. Manulife's strong performance was driven by robust growth in each of its operating segments. Indeed, the company generated double-digit percent growth in adjusted earnings across each of business units. The markets reacted favorably to Manulife's second-quarter earnings release and shares rose by nearly 2% on the first trading day following the announcement.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.26	\$0.78	-\$0.27	\$0.02	\$0.88	\$1.26	\$1.28	\$1.28	\$1.49	\$1.73	\$1.90	\$2.30
DPS¹	\$0.94	\$0.68	\$0.50	\$0.52	\$0.52	\$0.49	\$0.51	\$0.52	\$0.56	\$0.63	\$0.70	\$0.85
Shares	1610.0	1757.7	1778.0	1801.0	1827.7	1848.0	1864.0	1977.0	1975.0	1978.0	1990.0	2100.0

Manulife Financial Corporation's growth history is spotty at best. While adjusted earnings saw double-digit growth in the most recent quarter, we believe that this is highly unlikely to continue over any meaningful period of time. Instead, we believe that Manulife is capable of delivering long-term earnings-per-share growth of around 4% per year. We believe the company is likely to print earnings-per-share of around \$1.90 in fiscal 2019. Applying a 4% annualized growth rate to this forecast allows us to calculate our 2023 earnings-per-share estimate of \$2.30.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	---	22.9	---	---	13.7	13.0	15.1	13.4	9.6	11.1	9.7	---
Avg. Yld.	2.9%	3.8%	3.1%	3.4%	4.3%	3.0%	2.5%	3.0%	3.9%	3.3%	---	---

Manulife Financial Corporation's valuation history has been nearly as volatile as its earnings. Based on comparable valuations in the insurance sector, we believe that a fair valuation multiple for Manulife is a price-to-earnings ratio of

¹ Note: While Manulife did indeed cut its dividend in the 2007-2009 financial crisis, the 2013 decline in per-share dividends was due entirely to foreign exchange fluctuations (the company declares its dividends in Canadian dollars, while NYSE:MFC shareholders are paid in U.S. dollars at the prevailing exchange rate).

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

around 11.5. Manulife is trading at a price-to-earnings ratio of 9.7 today. If the company’s price-to-earnings ratio can expand to 12 over 5 years, this will boost the company’s annualized returns by 3.5% per year during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Int. Cov.	1.5	0.9	-1.2	1.1	2.3	4.6	4.8	3.4	4.3	3.2	3.5	3.5
Debt/A	87.1%	86.0%	94.2%	94.6%	94.8%	94.3%	94.1%	94.0%	94.1%	94.2%	94.0%	94.0%
Std. Dev.	44.4%	87.8%	40.0%	32.2%	29.8%	20.4%	17.3%	22.8%	29.9%	15.1%	20.0%	20.0%
Payout	362%	87.2%	N/A	N/A	59.1%	38.9%	39.8%	40.6%	37.6%	36.4%	36.8%	37.0%

Manulife Financial Corporation’s interest coverage deteriorated noticeably during the 2007-2009 financial crisis. At the same time, the proportion of its balance sheet that was comprised of debt surged to ~94%, and the company’s leverage has not declined from that level in the decade since. With that said, we believe that today’s Manulife is very different from its counterpart ten years ago. We also note that the likelihood of another Great Recession-level financial crisis in the near-term is rather low.

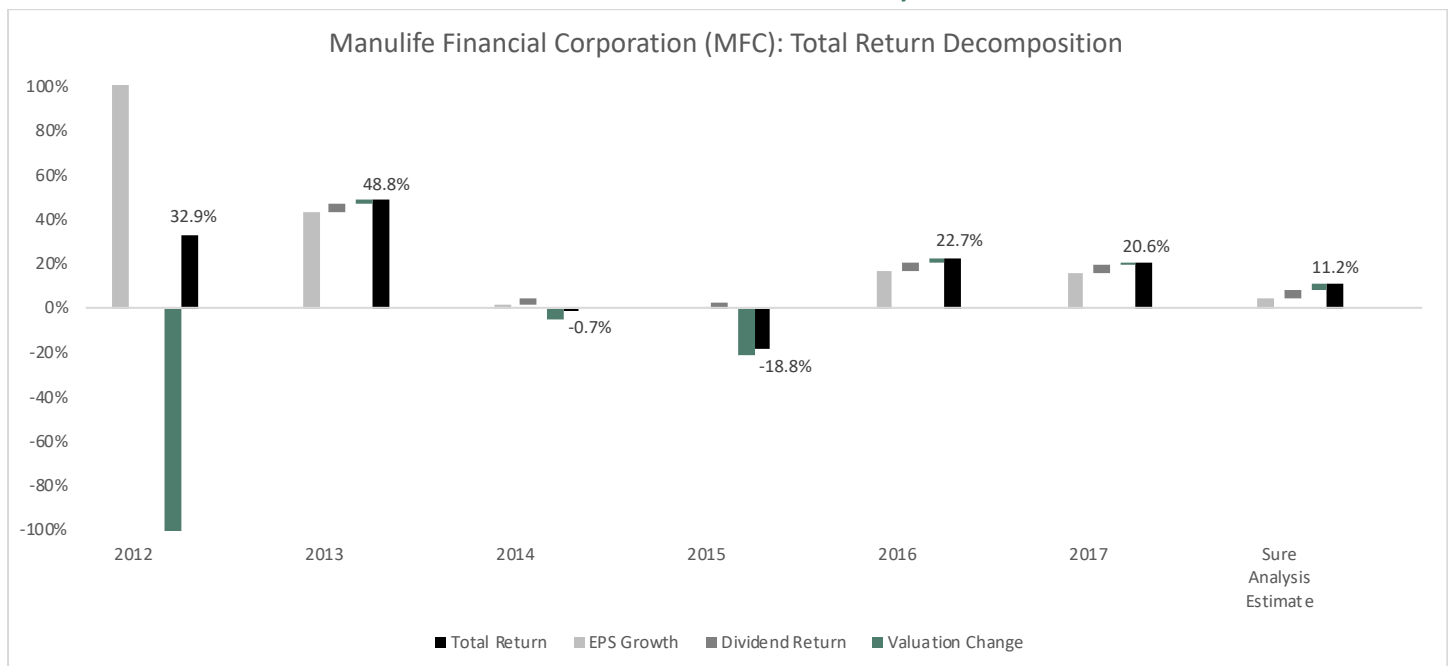
Qualitatively, Manulife’s competitive advantage is its dominance of the Canadian insurance industry as well as its global reach. Together, this allows the company to harvest the profits from its domestic segment and reinvest them international to drive long-term growth.

Final Thoughts & Recommendation

Manulife Financial Corporation’s growth history is volatile, and we do not expect the company to grow any faster than a long-term annualized rate of 4% per year. With that said, the company still has an appealing total return profile. Manulife appears priced to deliver returns of approximately 11% per year – *despite a slow growth rate*. Valuation expansion and dividend payments will deliver the majority of Manulife’s returns moving forward. This demonstrates the power of investing in undervalued businesses that are committed to returning capital to shareholders.

With that said, Manulife is far from the most compelling opportunity within the Canadian financial services industry. That title likely belongs to one of the ‘big 5’ banks – the Royal Bank of Canada (RY), the Toronto-Dominion Bank (TD), the Bank of Nova Scotia (BNS), the Bank of Montreal (BMO), or the Canadian Imperial Bank of Commerce (CM). For investors looking for exposure to the Canadian financial services industry, those 5 banks are likely the best bet. For those already overweight in the Canadian banks, Manulife may be worth consideration at its current price.

Total Return Breakdown by Year



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